

**REPORT OF THE AUDIT OF THE
MASON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MASON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Mason County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Highlights:

- The County's cash balance as of June 30, 2002 was \$4,412,220, which represents an \$848,527 decrease in the cash balance as of June 30, 2001.
- Operating revenue increased by \$309,676 over the prior year and budgeted expenditures increased by \$1,417,092 during the same period.

Debt Obligations:

- Total bonded debt principal as of June 30, 2002 was \$7,030,000. Future collections of \$11,059,031 are needed over the next twenty-five years to pay all bonded debt principal and interest.
- Capital lease principal outstanding as of June 30, 2002 was \$1,186,260. Future principal and interest payments of \$1,510,977 are needed over the next nine years to meet these obligations.
- Outstanding principal on notes totaled \$162,620 as of June 30, 2002. These notes are payable over the next eighteen years.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable James L. Gallenstein, Mason County Judge/Executive

Members of the Mason County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Mason County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Mason County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Mason County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2002 of Mason County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable James L. Gallenstein, Mason County Judge/Executive
Members of the Mason County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2002 on our consideration of Mason County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Mason County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 25, 2002

MASON COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

James L. Gallenstein	County Judge/Executive
Patrick McKay IV	Commissioner
F. J. Finn	Commissioner
Jack West	Commissioner

Other Elected Officials:

John Estill	County Attorney
Robert Tribby	Jailer
Frances Cotterill	County Clerk
Edward Tolle	Circuit Court Clerk
Tony Wenz	Sheriff
Betty Hester	Property Valuation Administrator
Robert Brothers	Coroner

Appointed Personnel:

Peggy Heflin	County Treasurer
Kim Muse	Finance Officer
Amanda Kimbler	Payroll Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

MASON COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Type</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 2,520,201	\$ 1,147,190	\$ 187,008
Investments			511,143
Restricted Cash-			
Payroll Revolving Account	28,882		
Christmas Withholding Account	12,244		
Total Assets	<u>\$ 2,561,327</u>	<u>\$ 1,147,190</u>	<u>\$ 698,151</u>
<u>Other Resources</u>			
Amounts to be provided	\$	\$	\$
In Future Years For:			
Note Payments			162,620
Capital Leases	147,000	1,039,260	
Bond Payments			6,331,849
Total Other Resources	<u>\$ 147,000</u>	<u>\$ 1,039,260</u>	<u>\$ 6,494,469</u>
Total Assets and Other Resources	<u>\$ 2,708,327</u>	<u>\$ 2,186,450</u>	<u>\$ 7,192,620</u>

MASON COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
 ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

Proprietary Fund Type	Totals (memo only) Primary Government
<u>Enterprise</u>	
\$ 46,678	\$ 3,901,077
	511,143
	28,882
	<u>12,244</u>
<u>\$ 46,678</u>	<u>\$ 4,453,346</u>
\$	\$
	162,620
	1,186,260
	<u>6,331,849</u>
<u>\$ 0</u>	<u>\$ 7,680,729</u>
<u>\$ 46,678</u>	<u>\$ 12,134,075</u>

The accompanying notes are an integral part of the financial statements.

MASON COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
 ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

	Governmental Fund Type		
	General	Special Revenue	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Leases (Note 5)	\$ 147,000	\$ 1,039,260	\$
Bonds: (Note 4 A, B)			
Series 1998 - Refunding			1,390,000
Series 1998 - First Mortgage			5,640,000
Notes Payable (Note 4 C, D)			162,620
Payroll Revolving Account	28,882		
Christmas Withholding Account	12,244		
Total Liabilities	<u>\$ 188,126</u>	<u>\$ 1,039,260</u>	<u>\$ 7,192,620</u>
<u>Equity</u>			
Retained Earnings:			
Restricted	\$	\$	\$
Unrestricted			
Fund Balances:			
Reserved (Note 6)		563,018	
Unreserved	2,520,201	584,172	
Total Equity	<u>\$ 2,520,201</u>	<u>\$ 1,147,190</u>	<u>\$ 0</u>
Total Liabilities and Equity	<u>\$ 2,708,327</u>	<u>\$ 2,186,450</u>	<u>\$ 7,192,620</u>

MASON COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Proprietary Fund Type	Totals (memo only) Primary Government
<u>Enterprise</u>	
\$	\$ 1,186,260
	1,390,000
	5,640,000
	162,620
	28,882
	<u>12,244</u>
\$	\$ 8,420,006
0	
\$	\$ 46,678
	563,018
	<u>3,104,373</u>
\$	\$ 3,714,069
46,678	
\$	\$ 12,134,075
46,678	

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MASON COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 6,849,400	\$ 2,513,623	\$ 756,744	\$ 969,176
Receipts - Jail Canteen Fund	273,869			
Other Financing Sources:				
Transfers In	1,059,550			500,000
Kentucky Advance Revenue Program	677,400	677,400		
Total Cash Receipts	<u>\$ 8,860,219</u>	<u>\$ 3,191,023</u>	<u>\$ 756,744</u>	<u>\$ 1,469,176</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 6,997,800	\$ 1,747,246	\$ 744,818	\$ 1,283,382
Expenditures - Public Properties				
Corporation Fund	55,851			
Expenditures - Jail Canteen Fund	251,821			
Other Financing Uses:				
Transfers Out	1,059,550	859,629		164,074
Bonds:				
Principal Paid	220,000			
Interest Paid	353,871			
Capital Leases - Principal	124,963		21,000	5,408
Notes - Principal	7,446			
Kentucky Advance Revenue Program Repaid	677,400	677,400		
Total Cash Disbursements	<u>\$ 9,748,702</u>	<u>\$ 3,284,275</u>	<u>\$ 765,818</u>	<u>\$ 1,452,864</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (888,483)	\$ (93,252)	\$ (9,074)	\$ 16,312
Cash Balance - July 1, 2001	5,260,747	1,814,562	372,794	86,769
Voided Prior Year Checks	39,956			11
Cash Balance - June 30, 2002	<u>\$ 4,412,220</u>	<u>\$ 1,721,310</u>	<u>\$ 363,720</u>	<u>\$ 103,092</u>

* Cash Balance Includes Investments

MASON COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

General Fund Type	Special Revenue Fund Type		Debt Service Fund Type	Enterprise Fund Type
Local Government Economic Assistance Fund	Solid Waste Fund	Landfill Fund	Public Properties Corporation Fund	Jail Canteen Fund
\$ 555,678	\$ 288,316	\$ 1,396,196	\$ 369,667	\$ 273,869
	325,000	25,000	209,550	
<u>\$ 555,678</u>	<u>\$ 613,316</u>	<u>\$ 1,421,196</u>	<u>\$ 579,217</u>	<u>\$ 273,869</u>
\$ 536,029	\$ 578,874	\$ 2,107,451	\$ 55,851	\$ 251,821
10,847		25,000		
			220,000	
			353,871	
5,000		93,555		
7,446				
<u>\$ 559,322</u>	<u>\$ 578,874</u>	<u>\$ 2,226,006</u>	<u>\$ 629,722</u>	<u>\$ 251,821</u>
\$ (3,644)	\$ 34,442	\$ (804,810)	\$ (50,505)	\$ 22,048
335,723	6,386	1,911,075	708,808	24,630
	11	86	39,848	
<u>\$ 332,079</u>	<u>\$ 40,839</u>	<u>\$ 1,106,351</u>	<u>\$ 698,151</u>	<u>\$ 46,678</u>

The accompanying notes are an integral part of the financial statements.

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COMBINED STATEMENT OF CASH
FLows-PROPRIETARY FUND TYPES

MASON COUNTY
COMBINED STATEMENT OF CASH
FLOWS-PROPRIETARY FUND TYPES

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund</u> <u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Cash Received From Inmates	\$ 273,570
Interest Received on Bank Account	299
Payments to Suppliers	(91,215)
Payments to Employees	(4,800)
Other Payments	<u>(155,806)</u>
Net Cash Provided By Operating Activities	<u>\$ 22,048</u>
Net Increase in Cash	\$ 22,048
Cash and Cash Equivalents - Beginning	<u>24,630</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 46,678</u></u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income	\$ 22,048
Net Changes in Assets and Liabilities	
Net Cash Provided by Operating Activities	<u><u>\$ 22,048</u></u>

The accompanying notes are an integral part of the financial statements.

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Mason County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Mason County Public Properties Corporation as part of the reporting entity.

Mason County Public Properties Corporation:

The Mason County Public Properties Corporation cannot be sued in its own name without recourse to the Mason County Fiscal Court, who appoints a voting majority consisting of the fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the fiscal court per KRS 58.180 to act as the agent in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. This component unit is blended within the financial statements of the county.

Additional - Mason County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Mason County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Mason County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Mason County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund (LGEA).

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Mason County Special Revenue Fund Type includes the following county funds: Solid Waste Fund and the Landfill Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Mason County Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Proprietary Fund Type

The Proprietary Fund Type is an enterprise fund used to report an activity for which a fee is charged to external users for goods or services. The Mason County Proprietary Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Mason County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits and Investments

A. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

B. Investments

The county's investments are categorized below to give an indication of the level of risk assumed by the county at year-end. Category 1 includes investments that are insured or registered or the securities are held by the county or by the county's agent in the county's name. Category 2 includes uninsured and unregistered investments where the securities are held by the financial institution in the county's name.

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 3. Deposits and Investments (Continued)

B. Investments (Continued)

Category 3 includes uninsured and unregistered investments where the securities were held by the financial institution, but not in the county's name.

Types of Investments	Category			Carrying Amount	Market Value
	1	2	3		
Vanguard Treasury Money Market	\$ 99,353	\$	\$	\$ 99,353	\$ 99,353
U.S. Treasury Bill	411,790			411,790	411,790
Totals	<u>\$ 511,143</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 511,143</u>	<u>\$ 511,143</u>

Note 4. Long-Term Debt

- A) In February 1998, the Mason County Public Properties Corporation issued \$1,880,000 first mortgage refunding revenue bonds for the purpose of paying the outstanding principal and interest of the Mason County, Kentucky Public Properties Corporation first mortgage revenue bonds, Series 1991 (the "prior bonds") through and including June 1, 2001, and redeeming the prior bonds on June 1, 2001. Principal payments are due each year on June 1, in the amounts indicated below. Interest on the bonds is payable each June 1, and December 1, and began June 1, 1998. The total principal balance was \$1,495,000 on June 30, 2001.

Due Date	Interest	Principal
2002 - 2003	\$ 63,450	\$ 115,000
2003 - 2004	58,275	120,000
2004 - 2005	52,875	125,000
2005 - 2006	47,250	130,000
2006 - 2007	41,400	130,000
2007 - 2011	109,710	770,000
Total	<u>\$ 372,960</u>	<u>\$ 1,390,000</u>

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Long-Term Debt (Continued)

- B) In May 1998, the Mason County Public Properties Corporation issued \$5,970,000 first mortgage revenue bonds in order to construct a new court facility. The principal payments are due each year on March 1, starting March 1, 2000, in the amounts indicated below. Interest on the bonds is payable each September 1, and March 1, and began September 1, 1998. The total principal balance was \$5,755,000 on June 30, 2001.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2002 - 2003	\$ 280,090	\$ 120,000
2003 - 2004	274,240	125,000
2004 - 2005	268,116	130,000
2005 - 2006	261,746	140,000
2006 - 2007	254,885	145,000
2007 - 2012	1,161,235	830,000
2012 - 2017	936,910	1,050,000
2017 - 2022	646,500	1,355,000
2022 - 2027	270,500	1,745,000
Total	<u>\$ 4,354,222</u>	<u>\$ 5,640,000</u>

- C) In March 1999, the Mason County Public Properties Corporation entered into a note with Kentucky Housing Corporation, for rehabilitation of housing for the elderly. The note was for \$135,366 with an interest rate of 2.00% per annum. Principal and interest are being repaid in twenty equal, consecutive annual installments of \$8,279, commencing on July 1, 2000, and continuing annually on the first day of July until the maturity date on July 1, 2019. The total principal balance was \$129,795 on June 30, 2001.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2002 - 2003	\$ 2,483	\$ 5,796
2003 - 2004	2,367	5,912
2004 - 2005	2,248	6,031
2005 - 2006	2,128	6,151
2006 - 2007	2,004	6,274
2007 - 2012	8,088	33,304
2012 - 2017	4,622	36,770
2017 - 2020	960	23,874
Total	<u>\$ 24,900</u>	<u>\$ 124,112</u>

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Long-Term Debt (Continued)

- D) In December 1998, the Mason County Public Properties Corporation entered into a note with Buffalo Trace Area Development District, for rehabilitation of housing for the elderly. The note was for \$42,000 with an interest rate of 2.00% per annum. Principal and interest are being repaid in twenty equal, consecutive annual installments of \$2,569, commencing on September 30, 2000, and continuing annually on the 30th of September until the maturity date on September 30, 2019. The total principal balance was \$40,271 on June 30, 2001.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2002 - 2003	\$ 771	\$ 1,798
2003 - 2004	735	1,834
2004 - 2005	698	1,871
2005 - 2006	661	1,908
2006 - 2007	622	1,946
2007 - 2012	2,510	10,331
2012 - 2017	1,434	11,413
2017 - 2020	298	7,407
Total	<u>\$ 7,729</u>	<u>\$ 38,508</u>

Note 5. Capital Lease Agreements

- A) In June 1996, Mason County entered into a \$1,500,000 lease agreement with Fifth Third Bank for landfill construction. The agreement requires a semi-annual payment of \$74,906, which includes 5.67 percent interest through and including June 1, 2001, and thereafter for each succeeding five year period at a rate equal to the five-year interest rate for U.S. Treasury Obligations, as published by the lessor's treasury department, plus 227 basis points multiplied by .65, as calculated on June 1, 2001, and June 1, 2006. It is to be paid in full, June 1, 2011. The principal balance of the agreement was \$1,039,260, as of June 30, 2002.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2002 - 2003	\$ 57,953	\$ 91,859
2003 - 2004	52,671	97,141
2004 - 2005	47,085	102,727
2005 - 2006	41,179	108,643
2006 - 2007	34,931	114,881
2007 - 2011	69,757	524,009
Total	<u>\$ 303,576</u>	<u>\$ 1,039,260</u>

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Capital Lease Agreements (Continued)

- B) Mason County (the "County") entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT), for waterlines in the Buffalo Trail Water Association (the "Association"). The County became the lessor and the Association the lessee, with the County being the pass-through entity for the lease agreement. The Association makes the required monthly payments to the County and the County remits payments to Bank One. The original lease was for \$85,000, with monthly interest payments due at 5.624 percent, and annual principal payments in various amounts due January 22 for fifteen (15) years, to be paid in full February 1, 2010. The total principal balance of the agreement was \$53,000 as of June 30, 2002.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2002 - 2003	\$ 2,828	\$ 6,000
2003 - 2004	2,492	6,000
2004 - 2005	2,156	6,000
2005 - 2006	1,820	6,000
2006 - 2007	1,461	7,000
2007 - 2011	<u>2,007</u>	<u>22,000</u>
Total	<u>\$ 12,764</u>	<u>\$ 53,000</u>

- C) Mason County entered into a lease purchase agreement with National City Bank on March 22, 2001, for the purchase of a dumptruck and bulldozer. The lease is for \$115,000 at 4.34% interest rate. Interest payments are due semi-annually with the first payment due May 20, 2001. Principal payments of varying amounts are due annually on November 20. The lease is to be paid in full November 20, 2005. The principal balance was \$94,000, as of June 30, 2002.

<u>Due Date</u>	<u>Interest</u>	<u>Principal</u>
2002 - 2003	\$ 3,602	\$ 22,000
2003 - 2004	2,626	23,000
2004 - 2005	1,606	24,000
2005 - 2006	<u>543</u>	<u>25,000</u>
Total	<u>\$ 8,377</u>	<u>\$ 94,000</u>

MASON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Landfill Closure and Postclosure Costs

KAR 48:310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars of the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan.

Through an interlocal agreement with the City of Maysville, the Mason County Fiscal Court manages the operation and accounts for the Maysville-Mason County Landfill. The landfill consists of two landfill cells.

- a) The “old” 21.5-acre residual cell stopped receiving household garbage on June 30, 1995, but continued receiving construction and demolition debris through the spring of 2001, at which time initial steps were taken in the closure of this cell. As of June 30, 2002, the county has closed this cell at a total cost of \$1,318,033. Post closure costs are estimated at \$8,840 a year for a period of thirty years.
- b) The “new” 41.0-acre contained cell has been operational since January 30, 1997. As of January 8, 2002 (survey date), 9% of this cell’s capacity had been used with an estimated remaining life of approximately 48.97 years (17,877 days). The estimated closure cost for this cell is \$4,363,500 with estimated post closure costs of \$23,000 a year for a period of thirty years.

Mason County is required to collect and segregate fifteen percent (15%) of gross receipts of the landfill and account for it in a restricted Landfill Closeout Fund. The balance maintained for landfill closure as of June 30, 2002, was \$563,018. The City of Maysville and Mason County Fiscal Court will jointly fund post closure costs.

The estimates above are based on information as of audit date and can be altered based on inflation/deflation, technology, and laws and regulations.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

MASON COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,490,603	\$ 2,513,623	\$ 1,023,020
Road and Bridge Fund	742,501	756,744	14,243
Jail Fund	1,507,487	969,176	(538,311)
Local Government Economic Assistance Fund	500,000	555,978	55,978
<u>Special Revenue Fund Type</u>			
Federal Grants Fund	105,648		(105,648)
Solid Waste Fund	612,300	288,316	(323,984)
Landfill Fund	<u>1,211,000</u>	<u>1,396,196</u>	<u>185,196</u>
Totals	<u>\$ 6,169,539</u>	<u>\$ 6,480,033</u>	<u>\$ 310,494</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 6,169,539
Add: Budgeted Prior Year Surplus			4,321,361
Less: Other Financing Uses			<u>(1,019,359)</u>
Total Operating Budget Per Comparative Schedule of Final Budget and Budgeted Expenditures			<u>\$ 9,471,541</u>

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SCHEDULE OF OPERATING REVENUE

MASON COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	Totals (Memorandum Only)	GOVERNMENTAL FUND TYPE		
		General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 1,676,978	\$ 1,676,978	\$	\$
In Lieu Tax Payments	38,142	38,142		
Excess Fees	76,019	76,019		
Licenses and Permits	12,425	10,294	2,131	
Intergovernmental Revenues	2,638,039	2,633,617	4,422	
Charges for Services	1,395,515	38,370	1,357,145	
Miscellaneous Revenues	885,957	251,242	287,810	346,905
Interest Earned	126,325	70,559	33,004	22,762
Total Operating Revenue	<u>\$ 6,849,400</u>	<u>\$ 4,795,221</u>	<u>\$ 1,684,512</u>	<u>\$ 369,667</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

MASON COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,073,555	\$ 850,093	\$ 223,462
Protection to Persons and Property	1,276,625	1,153,139	123,486
General Health and Sanitation	292,442	93,422	199,020
Social Services	29,600	24,240	5,360
Recreation and Culture	142,469	133,823	8,646
Roads	894,056	667,402	226,654
Airports	8,000	7,725	275
Bus Service	26,277	26,277	
Debt Service	34,596	10,026	24,570
Capital Projects	375,000	212,617	162,383
Administration	1,557,453	1,132,712	424,741
 Total Operating Budget - General Fund Type	 \$ 5,710,073	 \$ 4,311,476	 \$ 1,398,597
 Other Financing Uses:			
Transfers to Public Properties			
Corporation Fund	209,550	209,550	
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	677,400	677,400	
Kentucky Housing Corporation -			
Principal	5,683	5,683	
Buffalo Trace Area Development			
District - Principal	1,763	1,763	
Capital Lease Agreements -			
Principal	31,408	31,408	
 TOTAL BUDGET - ALL GENERAL FUND TYPES	 \$ 6,635,877	 \$ 5,237,280	 \$ 1,398,597

MASON COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Health and Sanitation	\$ 2,934,884	\$ 2,401,847	\$ 533,037
Debt Service	300,000	56,256	243,744
Capital Projects	162,093	40,061	122,032
Administration	364,491	188,160	176,331
Total Operating Budget - Special Revenue Fund Type	\$ 3,761,468	\$ 2,686,324	\$ 1,075,144
Other Financing Uses:			
Capital Lease Agreements - Principal	93,555	93,555	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 3,855,023</u>	<u>\$ 2,779,879</u>	<u>\$ 1,075,144</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable James L. Gallenstein, Mason County Judge/Executive

Members of the Mason County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Mason County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 25, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mason County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mason County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 25, 2002

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MASON COUNTY FISCAL COURT

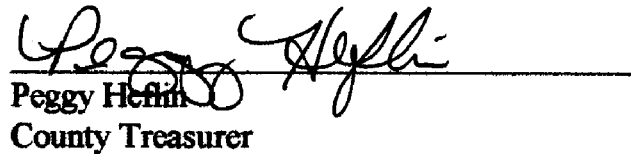
For The Fiscal Year Ended June 30, 2002

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MASON COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2002

The Mason County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


James L. Gallenstein
County Judge/Executive


Peggy Hefflin
County Treasurer